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Zenith Bank PLC

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Table Of Contents

Zenith Bank PLC

Major Rating Factors

Counterparty Credit Rating
B+/Positive/B
Nigeria National Scale *ngA+/--/ngA-1*

Strengths:

- A leading top-tier bank, with strong revenue growth, supporting adequate capitalization.
- A strong risk position underpinned by Zenith's prudent underwriting standard and moderate loan growth target.
- Stable core deposit base with strong liquidity indicators.

Weaknesses:

- Moderately high single-name and industry loan concentrations.
- High economic and industry risk associated with operating in Nigeria
- Limited geographic diversification

Outlook: Positive

The outlook on Nigeria-based Zenith Bank PLC (Zenith) largely reflects the outlook on the Federal Republic of Nigeria (B+/Positive/B). In Standard & Poor's Ratings Services' view, if Nigeria's reform initiatives support positive economic growth, build stronger buffers against the country's dependence on petroleum revenues, and reduce pressure on the exchange rate, these factors could lead to a sovereign upgrade and result in a more-favorable operating environment for the banks. We believe that the bank's cost of risk and profitability will likely improve as general economic activity picks up and cautious loan growth continues.

We would raise the ratings on Zenith if we were to raise the ratings on the sovereign, as long as the bank maintains a stand-alone credit profile (SACP) of at least 'bb-'.

We would revise the outlook on the bank to stable if the outlook on Nigeria were revised to stable. The lowering of the bank's SACP would not have an impact on its ratings as long as it remains at least at 'b+', all things being equal.

Rationale

The ratings on Zenith reflect its anchor of 'bb-', and our view of the company's "adequate" business position, "adequate" capital and earnings, "strong" risk position, "above average" funding, and "adequate" liquidity, as our criteria define these terms.

Zenith's SACP is 'bb'.

Anchor:'bb–' for banks operating only in Nigeria

Under our bank criteria, we use our Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. Our anchor for a commercial bank operating in Nigeria is 'bb-'. We view Nigeria as having high political risk and infrastructure needs, both factors that contribute to a volatile and risky operating environment. Nigeria has extensive natural resources, low government debt, and high economic growth potential, all of which partly mitigate these risks. The Central Bank of Nigeria's recent actions as banking supervisor have been positive, but its regulatory track record has been weak, historically. Our opinion on industry risk reflects this track record and the prevalence of poor corporate governance, as well as the sector's limited stability. There have been numerous bankruptcies, and several mergers and acquisitions are ongoing. We view the industry's funding profile as a strength. Although banks are mainly funded by short-term deposits, the risk is largely offset by good levels of liquidity.

Table 1

Zenith Bank PLC Key Figures					
		--Year-ended Dec. 31--			
(Mil. NGN)	**2012***	**2011**	**2010**	**2009**	**2008**
Adjusted assets	2,360,138.0	2,308,619.0	1,895,027.0	1,659,703.0	1,787,831.7
Customer loans (gross)	937,000.0	876,957.0	759,239.0	752,971.0	464,330.3
Adjusted common equity	396,590.0	349,700.0	363,463.0	326,490.0	317,829.2
Operating revenues	52,083.0	197,914.0	152,148.0	188,238.0	154,695.7
Noninterest expenses	29,697.0	117,928.0	97,769.0	113,261.0	92,257.6
Core earnings	17,691.2	40,628.9	37,414.0	20,618.9	51,985.4

*Data as of March 31. NGN--Nigerian naira.

Business position: A leading top-tier bank, with strong revenue growth

We consider Zenith's business position to be "adequate" and a neutral rating factor. Zenith is one of the largest banks in Nigeria. It continues to enjoy a leading market position and accounts for approximately 15% of total banking sector assets. The bank had total consolidated assets of Nigerian naira [NGN] 2.36 trillion ($15.2 billion) as of March 31, 2012. The Nigerian banking sector has undergone a phase of consolidation following the central bank's swift actions to rescue failing banks in 2010-2011. As a result, we see it as likely that Zenith will over time face increasing competition from its peers in its core markets. In particular, we see this occurring in its institutional and commercial banking business lines, which service high-end Nigerian and multinational corporations.

Zenith's management has shown a consistent operating strategy of organically developing the domestic franchise and strengthening enterprise risk management to reduce risks. The bank has developed a strong franchise over time by capturing business from large corporate clients, while offering banking services to its suppliers, distributors, and staff.

Zenith's business model will be almost entirely focused on corporate and retail banking, which currently accounts for about 95% of gross revenues. Zenith's non-banking services, such as general health, life insurance, investment management, and brokerage account for a very small share of revenues. In line with the terms of its newly issued commercial banking license, Zenith will be divesting these non-banking subsidiaries by year-end 2012.

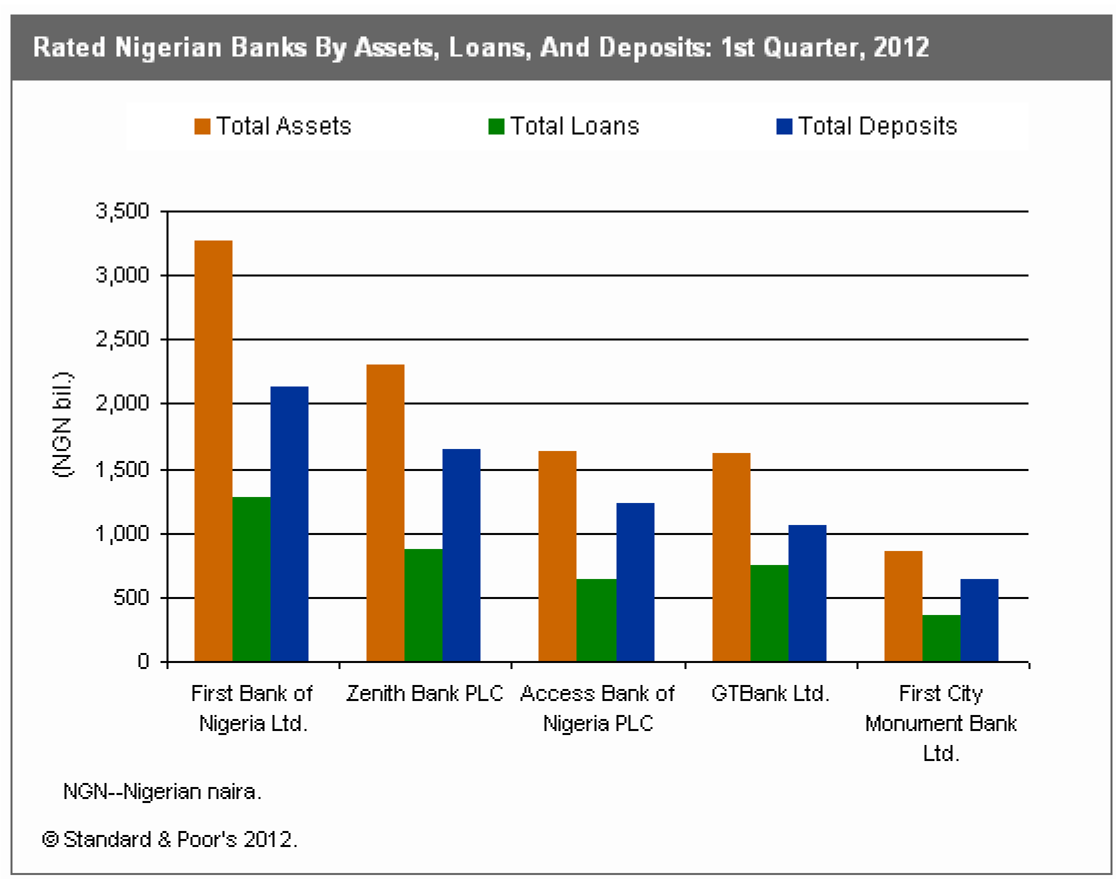
Similar to other rated domestic peers, a weakness in Zenith's business position is its geographic concentration. About 95% of the bank's revenues come from Nigeria, with limited scope for diversification through existing foreign entities (Ghana, Gambia, Sierra Leone, the U.K., South Africa, and China).

Table 2

Zenith Bank PLC Business Position Ratios					
		--Year-ended Dec. 31--			
(%)	2012*	2011	2010	2009	2008
Total revenues from business line (currency in millions)	53,920.0	203,263.0	152,148.0	188,238.0	154,703.1
Commercial & retail banking/total revenues from business line	130.3	114.2	119.6	143.8	94.8
Trading and sales income/total revenues from business line	N/A	0.6	1.1	N/A	N/A
Insurance activities/total revenues from business line	N/A	5.1	5.0	N/A	N/A
Other revenues/total revenues from business line	(30.3)	(19.9)	(25.8)	(43.8)	5.2
Investment banking/total revenues from business line	N/A	0.6	1.1	N/A	N/A
Return on equity	19.7	11.9	10.7	4.8	18.0

*Data as of March 31. N/A--Not applicable.

Chart 1



Capital and earnings:Internal capital generation enables the bank to maintain a stable capital ratio

We assess Zenith's capital and earnings as "adequate". This is based primarily on our opinion that Zenith's capitalization will remain adequate on the back of solid earnings. We anticipate that our risk-adjusted capital (RAC) ratio before adjustments for the bank will remain stable and slightly above 7.0% in the next 12-18 months.

As measured by our RAC framework, Zenith's proforma RAC ratio before diversification/concentration adjustments was 7.2% at year-end 2011. The main risk charges, which are higher than those applied by the regulator, arise from the bank's corporate lending. Zenith's corporate loan book represents about 60% of the total risk-weighted credit exposure. Furthermore, government exposure (including cash and balances at the central bank, government bonds and Asset Management Corporation of Nigeria bonds guaranteed by the government), account for about a third of total risk-weighted credit exposure. Our higher risk weights for government exposure largely explains the difference between our RAC ratio and Zenith's regulatory capital adequacy ratio of 28.2% at year-end 2011.

Our projected RAC ratio is based upon the assumption that internal capital generation will move in line with risk asset growth over the next 12-18 months. In our opinion, Zenith's operating performance is strong. It has historically outperformed its domestic peers, with core earnings to adjusted assets of 1.9% in 2011 compared to an average of 1.4%. Zenith has enjoyed a low cost of funds of 2.5% over the past two years compared to 4.0% for its peers owing to its long lasting relationships with corporate depositors and solid franchise, boosting its bottom line results. We anticipate that Zenith's operating efficiency will slightly improve with a cost-to-income ratio of about 55% in 2012. We also assume a stable cost of risk and a dividend payout ratio not exceeding 50%.

In our view, the quality of capital and earnings is good and compares adequately with domestic peers. Zenith's capital is comprised of common equity. Similar to peers, net interest income to revenues amounts to about two-thirds of the bank's total revenues, while trading revenues account for less than 10% of revenues. Zenith is further developing its fee and commission revenues, which in our view should help to strengthen revenue generation.

Table 3

Zenith Bank PLC Capital And Earnings Ratios

		--Year-ended Dec. 31--			
(%)	**2012***	**2011**	**2010**	**2009**	**2008**
Tier 1 capital ratio	N/A	26.6	N/A	N/A	N/A
S&P RAC ratio before diversification	N.M.	7.2	7.4	N.M.	N.M.
S&P RAC ratio after diversification	N.M.	5.7	5.6	N.M.	N.M.
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	73.5	63.5	60.2	58.2	57.4
Fee income/operating revenues	20.8	26.6	32.0	26.6	30.7
Market-sensitive income/operating revenues	5.7	9.3	7.3	10.5	0.0
Noninterest expenses/operating revenues	57.0	59.6	64.3	60.2	59.6
Preprovision operating income/average assets	3.8	3.8	3.1	3.5	3.6
Core earnings/average managed assets	3.0	1.9	2.1	1.0	3.0

*Data as of March 31. N/A--Not applicable. N.M.--Not meaningful.

Table 4

Zenith Bank PLC Risk Position Ratios

		--Year-ended Dec. 31--			
(%)	**2012***	**2011**	**2010**	**2009**	**2008**
Growth in customer loans	27.4	15.5	0.8	49.7	45.2
Total diversification adjustment / S&P RWA before diversification	N.M.	25.3	30.7	N.M.	N.M.
Total managed assets/adjusted common equity (x)	6.0	6.6	5.2	5.1	5.6

Table 4

Zenith Bank PLC Risk Position Ratios (cont.)					
New loan loss provisions/average customer loans	0.5	3.0	0.6	5.2	1.3
Net charge-offs/average customer loans	N.M.	0.1	0.0	N.M.	N.M.
Gross nonperforming assets/customer loans + other real estate owned	3.7	4.2	5.8	5.6	2.0
Loan loss reserves/gross nonperforming assets	79.4	100.5	74.0	115.8	148.4

*Data as of March 31. N.M.--Not meaningful.

Risk position:Strong, underpinned by Zenith's prudent underwriting standards and moderate loan growth target

In our opinion, Zenith's risk position is "strong", underpinned by its conservative underwriting standards and moderate loan growth. Throughout the financial crisis in 2009-2010, Zenith's nonperforming loans (NPLs; defined as 90 days past due loans) have remained some of the lowest in Nigeria. Rated peers' NPLs have all reached double digits, whereas Zenith's NPLs peaked in 2010 at a modest 5.8% of total loans. Additionally, Zenith's provisioning has remained strong compared with peers. Over the last four years, Zenith's loan loss reserves have not dropped below 70%, and, as of the end of March 2012, cover 79% of NPLs. Cost of risk remains a strength for Zenith, with a four year average of 2.5% compared with a peer average of 3.4%. We forecast Zenith's NPLs to remain below 5% and its cost of risk to be below 2% in the medium term.

Similar to other banks in Nigeria, Zenith's loan book demonstrates some sector and single-name concentrations. At Dec. 31, 2011, manufacturing contributed to 27.1% of the total loan book and oil and gas accounted for another 16.4%. At the same date, the top 20 exposures represented 33% of total loans and 86% adjusted total equity.

We consider foreign currency lending as an additional risk for Nigerian banks that is not captured by our RAC ratio. At year-end 2011, Zenith's loan book was only 14% denominated in foreign currency compared with an average of 23.5% for peers. In addition, the regulator limits net foreign currency exposure to 3% of shareholder funds.

Table 5

Standard & Poor's RACF [Risk-Adjusted Capital Framework] Detailed Results Publication Table

	Exposure*	Basel II RWA	Average Basel II RW (%)	Standard & Poor's RWA	Average Standard & Poor's RW (%)
Government and central banks	1,066,618	0	0	1,280,539	120
Institutions	317,751	0	0	296,144	93
Corporate	1,448,912	0	0	2,586,377	179
Retail	46,435	0	0	75,258	162
Of which mortgage	0	0	0	0	0
Securitization§	0	0	0	0	0
Other assets	76,241	0	0	189,392	248
Total credit risk	2,955,957	0	0	4,427,711	150
Equity in the banking book†	8,908	0	0	90,943	1,021
Trading book market risk	--	0	--	0	--
Total market risk	--	0	--	90,943	--
Total insurance risk	--	--	--	0	--
Total operational risk	--	0	--	371,089	--

Table 5

Standard & Poor's RACF [Risk-Adjusted Capital Framework] Detailed Results Publication Table (cont.)					
RWA before diversification	--	0	--	4,889,743	100
Total diversification/concentration adjustments	--	--	--	1,235,684	25
RWA after diversification	--	0	--	6,125,426	125
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**Standard & Poor's RAC ratio (%)**
Capital ratio before adjustments	--	379,567	26.6	349,700	7.2
Capital ratio after adjustments‡	--	379,567	26.6	349,700	5.7

*Exposure at default. §Securitisation exposure includes the securitisation tranches deducted from capital in the regulatory framework. †Equity exposure includes the minority equity holdings in financial institutions. ‡For Tier 1 ratio, adjustments are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets.

Chart 2

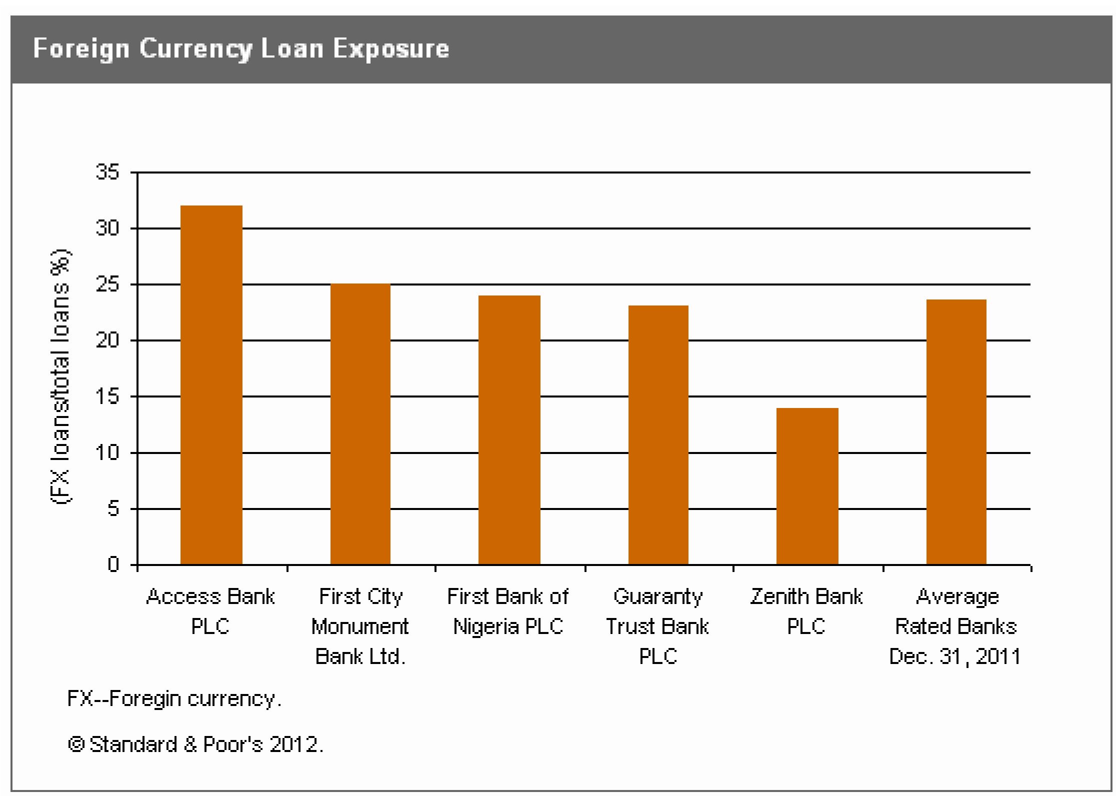
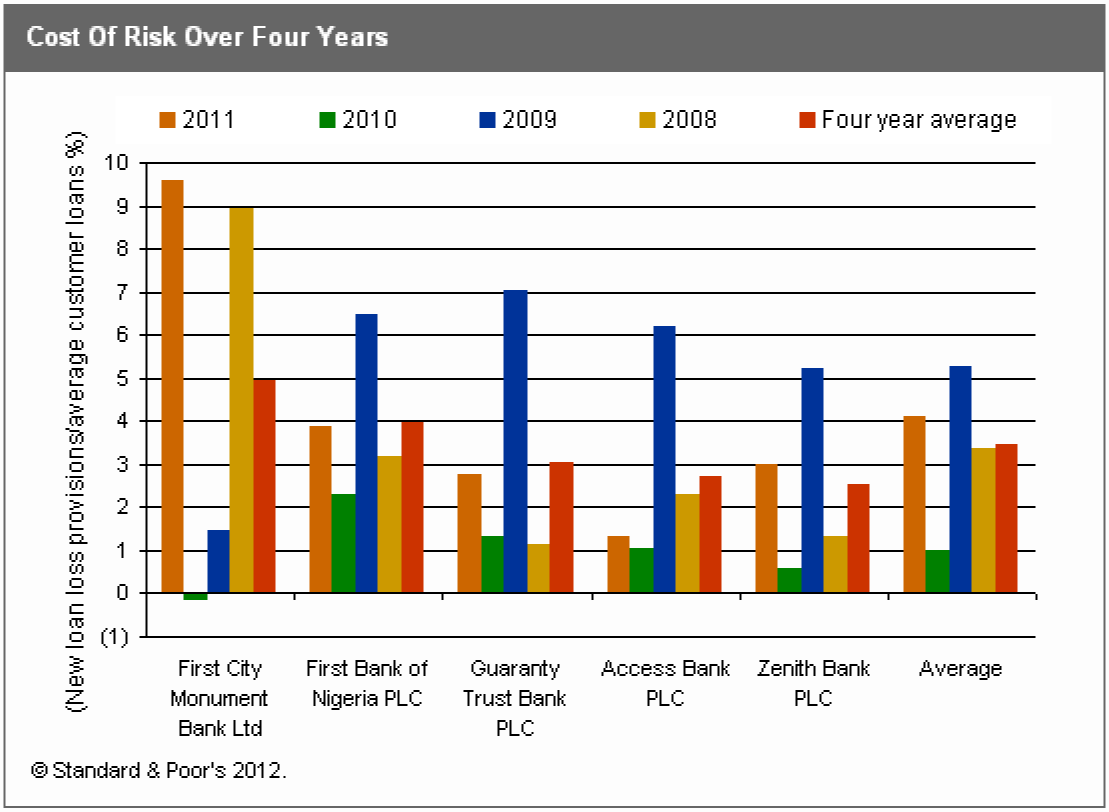


Chart 3



Funding and liquidity:A large and stable funding base, and a liquid balance sheet

We consider Zenith's funding to be "above average" and its liquidity "adequate". Zenith, like other banks operating in Nigeria, is largely deposit funded, with total deposits accounting for 99% of its total funding base at March 31, 2012. The funding base is fairly diversified with no material single-name concentration. Over the last five years, Zenith's loan to deposit ratio compared very well with Nigerian peers. At year-end 2011, the bank had a loan-to-deposit ratio of 54.4%, down from 57.6% in 2010. While largely stable, even under market stress, the bank is still exposed to contractually short-term funds. About 40% of total deposits are contractually short term with maturities of three months or less, while another 55% had maturities spanning from one-to-two years.

Zenith has a liquid balance sheet with liquid assets (defined as cash and money market instruments and securities) to total assets equaling to 57.2% at year-end 2011. At the same date, government bonds, AMCON bonds (guaranteed by the government), and cash held at the central bank totaled 45.4% of total assets. Due to the significant exposure to government and government-guaranteed debt, the ratings on Zenith are capped by the sovereign ratings.

Table 6

Zenith Bank PLC Funding And Liquidity Ratios

		--Year-ended Dec. 31--			
(%)	**2012***	**2011**	**2010**	**2009**	**2008**
Core deposits/funding base	98.9	96.6	97.9	97.1	97.3
Customer loans (net)/customer deposits	54.4	51.9	55.1	57.4	36.0

Table 6

Zenith Bank PLC Funding And Liquidity Ratios (cont.)					
Long term funding ratio	99.1	97.2	98.4	97.8	97.9
Broad liquid assets/short-term wholesale funding (x)	N.M.	30.0	N.M.	N.M.	N.M.
Net broad liquid assets/short-term customer deposits	31.2	148.9	146.5	127.2	84.3
Net short-term interbank funding/total wholesale funding	(1,389.0)	(416.7)	(1,427.1)	(949.9)	(859.1)
Short-term wholesale funding/total wholesale funding	N/A	63.4	N/A	N/A	0.0

*Data as of March 31. N/A--Not applicable. N.M.--Not meaningful.

External support: No uplift to the SACP, although the bank is of high systemic importance

Zenith, as one of the largest banks in Nigeria, is considered to be of "high" systemic importance. However, we do not factor in any extraordinary government support in its ratings given the level of Nigeria's sovereign ratings. At the same time, we consider the Nigerian government to be "supportive" of the banking system, as evidenced by the recent regulatory actions undertaken by the central bank.

Additional Rating Factors: Sovereign credit rating

The economic and industry risks of operating in a given country are incorporated into our anchor and SACP with the exception of the sovereign default scenario, which is only incorporated into the issuer credit ratings. As highlighted by its 'bb' SACP, the main constraint on Zenith's ratings is the sovereign ratings on Nigeria.

Rating Score Snapshot

Issuer Credit Rating B+/Positive/B

Nigeria National Scale ngA+/ngA-1

SACP bb

Anchor bb-

BICRA economic risk score 8

BICRA industry risk score 7

Business Position [Adequate] [0]

Capital and Earnings [Adequate] [0]

Risk Position [Strong] [+1]

Funding [Above Average] [0]

Liquidity [Adequate]

Support [0]

GRE Support [0]

Group Support [0]

Sovereign Support [0]

Additional Factors [-2]

Outlook: [Positive]

Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- BICRA On Nigeria Revised To Group '8' From Group '9', Nov. 9, 2011Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010

Ratings Detail (As Of July 6, 2012)		
Zenith Bank PLC		
Counterparty Credit Rating		B+/Positive/B
Nigeria National Scale		ngA+/--/ngA-1
Counterparty Credit Ratings History		
05-Jan-2012		B+/Positive/B
01-Jul-2010		B+/Stable/B
24-Aug-2009		B+/Negative/B
30-Mar-2009		BB-/Negative/B
16-Nov-2007		BB-/Stable/B
05-Jan-2012	*Nigeria National Scale*	ngA+/--/ngA-1
24-Aug-2009		ngA/--/ngA-1
30-Mar-2009		ngA+/--/ngA-1
26-Mar-2009		ngAA-/--/ngA-1
Sovereign Rating		
Nigeria (Federal Republic of)		B+/Positive/B
Nigeria National Scale		ngA+/--/ngA-1

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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McGRAW-HILL